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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 001491

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AMEMBASSY OTTAWA PASS TO AMCONSUL QUEBEC
AMEMBASSY BRASILIA PASS TO AMCONSUL RECIFE

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TAGS: ECON EFIN VE
SUBJECT: VENEZUELAN GOVERNMENT TAKES CONTROL OF FOUR PRIVATE BANKS

REF: CARACAS 494; CARACAS 918; 2008 CARACAS 566; 2008 CARACAS 930

CLASSIFIED BY: DUDDY, AMBASSADOR, DOS, AMB; REASON: 1.4(B), (D)

¶1. (SBU) Summary: The Venezuelan government (GBRV) announced November 20 that it was taking control of four private banks recently bought (or in the process of being bought) by Ricardo Fernandez, a businessman with close ties to the GBRV. The intervention is taking place with "open doors," i.e. clients may continue to withdraw money and conduct other transactions if they desire. Minister of Economy and Finance Ali Rodriguez said the banks had repeatedly violated regulations, including increasing capital without noting the origin of the funds. While each is relatively small, together the four banks account for 10.7 percent of the banking sector as measured by assets. The underlying problems at these banks and the GBRV's intervention will undoubtedly cause movements in the financial sector and perhaps the parallel foreign exchange market, but they do not seem to pose a systemic risk to the financial sector. End summary.

Announcing the Intervention

¶2. (U) In a press conference the morning of November 20, Minister of Economy and Finance Ali Rodriguez and Superintendent of Banks Edgar Hernandez announced the GBRV would take control of four banks, Banco Bolivar, Banco Confederado, Banpro, and Banco Canarias. These banks had all been recently bought, or were in the process of being bought, by Ricardo Fernandez Barrueco, a businessman with close ties to the GBRV and no prior experience in banking. Rodriguez said the intervention would take place with "open doors," i.e. clients could continue to withdraw money and conduct other transactions. Rodriguez and Behrens justified the intervention by saying the banks had repeatedly violated multiple regulations and directives, including increasing capital without specifying the origin of funds, not meeting required solvency ratios, not complying with mandatory directed credits, and not following through with plans to meet these credit requirements. The GBRV has assigned a board to manage each bank during the intervention and recommend a course of action to the GBRV.

Recent Acquisitions Raise Concerns in Financial Sector

¶3. (SBU) This intervention is the most significant step taken by the GBRV in response to mounting concerns in the financial sector over the purchase or attempted purchase of a number of smaller banks by new entrants to the sector with ties to the GBRV (refs A and B). Other reported examples include the purchases of Mi Banco, Banco Real, Central Banco Universal, and Seguros La Previsora (an insurance company) by a group associated with Pedro Torres Ciliberto and Arne Chacon, the brother of Minister of Science, Technology, and Intermediate Industry Jesse Chacon; the purchases of Inverunion and Mi Casa by Gonzalo Tiraldo, who was at one point the president of Stanford Bank of Venezuela; and the purchase of Banco Federal by Jose Zambrano, who also bought Banorte in 2008. (Note: Banco Federal and Banco Canarias are by far the largest of these banks, each accounting for close to 4 percent percent of the banking sector's assets. End note.)

¶4. (C) Pedro Almoguera (strictly protect throughout), Technical Executive Director of the Venezuelan Banking Association, told Econoff November 18 that the sector was concerned about the sources of funds used for these recent purchases, specifically as to whether deposits in the banks themselves had been used to purchase the banks and/or whether the funds had come from corrupt activities. (Note: If deposits were used in some way, it suggests the banks might have severe liquidity and solvency problems.

According to press reports, Rodriguez noted in the November 20 press conference that operations with related companies were prohibited and that banks' dividends needed to correspond to profits. That he would make these general statements suggests that deposits may have been used in the purchases. If so, the GBRV has an additional cause for concern, as the four banks intervened hold 13.9 percent of government deposits in the financial sector. End note.) Bernardo Chacin (strictly protect), president of Citibank Venezuela, echoed these concerns over the origin of funds to Econoff November 18 and said Citibank had decided to close all correspondent banking relationships with banks that had changed hands recently. Other contacts have expressed concern privately and in some cases publicly over the new owners' intentions, specifically about whether they would use the banks to make money off of arbitrage opportunities related to the GBRV's currency controls and/or to launder money (ref B). Chacin told Econoff that Central Bank president Nelson Merentes had told Chacin recently that he (Merentes) did not know where the money for the purchases was coming from and speculated there was involvement at high levels of government.

¶5. (C) In the weeks prior to the November 20 intervention, the GBRV and Central Bank (BCV) had issued resolutions giving Sudeban (the GBRV's banking regulator) and the BCV greater regulatory authority over sales of shares in banks. According to Almoguera, Sudeban has the authority to disapprove the sale of a bank, in which case it must notify the purchaser within 45 days of the purchase that the bank must be re-sold to an approved buyer. Sudeban may also extend the 45 day period indefinitely by requesting additional paperwork. As the process is not publicly disclosed, the status of the recent purchases is not clear. Hernandez recently said that the paperwork for all purchases except that of Banco Federal had been passed to Sudeban, implying that the paperwork stage might still be ongoing.

Potential Impact on the Financial Sector

¶6. (C) The GBRV's intervention and public revelation of problems at these banks will have consequences in the financial sector, but they are unlikely to present a systemic risk. While each bank is relatively small, together they account for 10.7 percent of the

banking sector as measured by assets and 11.1 percent as measured by liabilities (mainly deposits). Knowledge that the GBRV is backing deposits in the four banks, however, should help to prevent a run on them and more importantly on the sector at large (which would pose a systemic risk). According to Banesco Executive Vice President Carmen Lorenzo (strictly protect throughout), the intervention will probably cause a number of depositors to move their bolivars to larger and more liquid banks (including Banesco) and perhaps to purchase dollars on the parallel foreign exchange market. She said Banesco's president had instructed his managers to stand ready to provide liquidity to the interbank market if liquidity pressures mounted.

Meet Ricardo Fernandez

¶7. (C) Ricardo Fernandez is a businessman known to have close ties to the GBRV, particularly as a supplier and contractor to Mercal, the GBRV's chain of subsidized food markets. According to Lorenzo, who told Econoff she had known him for years, he began in agribusiness (including tuna and then corn). During the petroleum and general strike in 2002 and 2003, Lorenzo said, he provided transportation and food distribution services for the GBRV and received from the GBRV the necessary credit to expand these operations significantly. Lorenzo said he was now the largest provider of transport services to Sidor, the GBRV's steel maker, and had moved into other businesses as well. (Note: Lorenzo said

Banesco had provided credit to Fernandez in the past but had wound down its loans to him after noticing unusual movements of funds. End note.) In addition to his recent foray into the financial sector, Fernandez is also rumored to have bought Digitel, one of Venezuela's leading wireless service providers. Digitel director Ricardo Mata (strictly protect) told Econoffs November 17 that these rumors were false.

Comment: Why Now and Why Fernandez?

¶8. (C) The impact on the financial sector of the GBRV's intervention will play out over the next days and weeks. Assuming the intervention does not have a significant impact on the sector, its most interesting aspect is its timing and focus. For several years, local analysts have noted significant vulnerabilities at a number of smaller banks including the four intervened, and Sudeban's own statistics demonstrated that many of these banks have not complied with required solvency ratios and other regulations (ref C). Why, then, did the GBRV act now, and why against a person with close ties to the GBRV? As in the case of the structured notes saga of 2008 (ref D), there are probably several layers of underlying motivations, and it will be very difficult to tease them out. It is possible Ali Rodriguez, who is generally respected for his integrity if not for his policies, finally decided to draw a line out of concern for the sector as a whole or for GBRV deposits in the banks in question. It is also possible Fernandez did something to anger either President Chavez or important segments in the GBRV. End comment.
DUDDY